# *SECTION IV-IMPROVING BUSINESS PRACTICES*

Providing our Sailors, Marines, and civilians with high quality facilities, information technology, and an environment to achieve their goals are fundamental to mission accomplishment. The ability to project power through forward deployed naval forces relies heavily on a strong and efficient shore support structure.

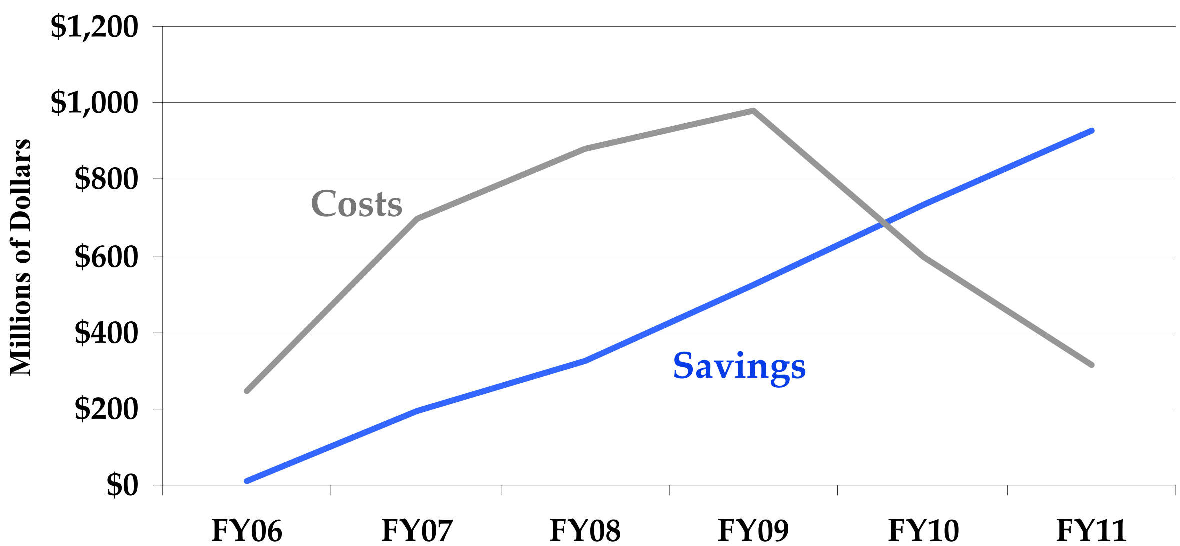
## *BASE REALIGNMENT AND CLOSURE (BRAC)*

The BRAC process has been a major tool for reducing the domestic base structure and generating savings. Continuing to balance the Department's force and base structures by eliminating unnecessary infrastructure is critical to preserving future readiness.

**BRAC 2005:**

The BRAC Commission recommendations for reshaping the Defense Department's infrastructure and force structure became official on November 9, 2005. The FY 2007 budget reflects a fully financed implementation program that completes all closures and realignments within the statutory six-year implementation period. The budget reflects only modest savings in FY 2007, but it is expected that overall savings will exceed $1 billion annually after FY 2011.

### *Chart 13 – BRAC 2005 Costs and Savings*



The budget includes a substantial investment in military construction, totaling $559 million in FY 2007 alone. Major closure and realignment efforts continued or initiated in FY 2007 are highlighted below:

**The continuation of closure efforts begun in FY 2006 at:**

- Naval Station Pascagoula, MS
- Naval Air Station Brunswick, ME
- Naval Station Ingleside, TX
- Naval Support Activity New Orleans, LA

**The initiation of closure efforts beginning in FY 2007 at:**

- Naval Air Station Atlanta, GA
- Naval Supply School Athens, GA

**The initiation of realignment efforts at:**

- Fleet Readiness Centers, various locations
- NAVFAC Engineering Field Divisions/Activities, various locations
- Naval Station Newport, RI
- San Antonio Regional Medical Center, TX

The FY 2007 program also continues Planning, Design and Management efforts, and Environmental Assessments and Environmental Impact Statements at various locations begun in FY 2007.

**Prior BRAC Rounds (BRAC I-IV):**

The FY 2007 budget emphasizes the Department's commitment to environmental compliance and restoration, while also fulfilling real estate and caretaker functions prior to property disposal at BRAC sites from the four prior BRAC rounds and Naval Station Roosevelt Roads.

The FY 2007 budget also finances critical regulatory efforts, while employing revenue from the sale of property at the former Marine Corps Air Station El Toro, CA to accelerate environmental cleanup at: Marine Corps Air Station Tustin, CA; Marine Corps Air Station El Toro, CA; Naval Air Station Moffet Field, CA; Naval Air Station Alameda, CA; Hunters Point Naval Shipyard, CA; Naval Station Treasure Island, CA; Naval Shipyard Mare Island, CA, and other BRAC locations.



| Also refer to Appendix A for more information: | Table |
|---|---|
| Base Realignment and Closure Accounts | A-20 |

# *MILITARY CONSTRUCTION*

The Department of the Navy's facility investment strategy focuses on recapitalizing inadequate and inefficient facilities, constructing new facilities to improve the

quality of life of our Sailors and Marines, supporting new mission requirements, enhancing anti-terrorism and force protection, and correcting critical deficiencies. The FY 2007 budget requests 58 military construction projects for the active Navy and Marine Corps, and eight military construction projects for the Navy and Marine Corps reserves. Included in the FY 2007 request are six military construction projects at various locations associated with the establishment of the Marine Corps Component of the Special Operations Command (MARSOC). The FY 2007 budget also includes a $62 million legal settlement associated with the purchase of Blount Island, FL in FY 2004. The FY 2007 budget request achieves the Department's key goals.

**The FY 2007 budget provides state of the art facilities to meet new and critical mission requirements:**

- Patuxent River, MD: MMA Test Facility;
- Coronado, CA: Waterfront Amphibious Operations Facility;
- Norfolk, VA: Helicopter Training Facility Addition;
- Pearl Harbor, HI: Helicopter Flight Training Facility, Mobile User Objective System Site Preparation;
- Sigonella, Italy: Mobile User Objective System Installation;
- VARLOCS: Helicoptor Support Facility.

**The FY 2007 budget provides facilities for the newly established Marine Corps component of the Special Operations Command at various locations:**

- Camp Pendleton, CA: BEQ/Dining Facility;
- Camp Lejeune, NC: Intelligence Operations Facility, Maintenance Complex, BQ, Dining Facility and Medical Facility.

**The FY 2007 budget provides joint-use facilities at:**

- Pensacola, FL: BEQ at Joint EOD School;
- Norfolk, VA: Joint Deployment/Fleet Services Command Center.

**The FY 2007 budget provides improved Anti-Terrorism/Force Protection for our Sailors and Marines at:**

- Bremerton, WA;
- King's Bay, GA.

**The FY 2007 budget request improves the quality of life of our Sailors and Marines at:**

- Quantico, VA: Student Quarters, Academic Instruction Facility;
- Camp Pendleton, CA: Bachelor's Quarters (two projects);
- Beaufort, SC: Dining Facility;
- Camp Lejeune, NC: Academic Instruction Facility.

**The Department continues its ambitious recapitalization program at:**

- Yuma, AZ: Fueling Apron;
- Camp Pendleton, CA: Light Armored Reconnaissance Company Facility, Expeditionary Fighting Vehicle Facility, Armory/Communications Complex, Fire Station, Regimental Maintenance Support Facility, Taxiway Improvements, Tactical Van Pad Expansion;
- Miramar, CA: Missile Magazine;
- Twenty-nine Palms, CA: Communications/Electric Maintenance and Storage Facility;
- Pearl Harbor, HI: Dredge Channel for T-AKE;
- Camp Lejeune, NC: Armories-II MEF, Mod-K Ranges, Ammo Supply Point Upgrade;
- New River, NC: Hangar;
- Beaufort, SC: Land Acquisition;
- Norfolk, VA: Damage Control Trainer, Dry Dock 8 Modernization;
- Whidbey Island, WA: Hangar 5 Recapitalization;
- Diego Garcia: Wharf Improvements/Shore Support Facility.

**The FY 2007 budget initiates one incremental project, the National Maritime Intelligence Center in Washington, DC, and continues or completes incremental projects begun in prior years, including:**

- Annapolis, MD: Wesley Brown Field House;
- Portsmouth, VA: Ship Repair Pier 3;
- Jacksonville, FL: Helicopter Hangar Replacement;
- Great Lakes, IL: Recruit Training Command Infrastructure Upgrade;
- Camp Pendleton, CA: Reclamation/Conveyance;
- Marianas/Guam: Alpha/Bravo Wharves Improvements;
- Washington County, NC: F/A-18 Outlying Landing Field;
- Norfolk, VA: Pier 11 Replacement;
- Silverdale, WA: Limited Area Production & Storage Facility;
- Everett, WA: BEQ Homeport Ashore;
- Quantico, VA: Hockmuth Hall Addition;
- Japan: Wharf Upgrades.

The FY 2007 budget also includes Navy and Marine Corps Reserve military construction projects at: Newburgh, NY; San Bernardino, CA; St. Louis, MO; Omaha, NB; Camp Lejeune, NC; Washington, DC; and Fort Worth, TX.

**FY 2007 MILCON Summary (Active & Reserve)**

| $M | FY 2005 | FY 2006 | FY 2007 |
|---|---|---|---|
| Navy | 938 | 1,361 | 697 |
| Marine Corps | 427 | 243 | 513 |
| **Total** | **$1,365** | **$1,604** | **$1,210** |

## *FAMILY HOUSING*

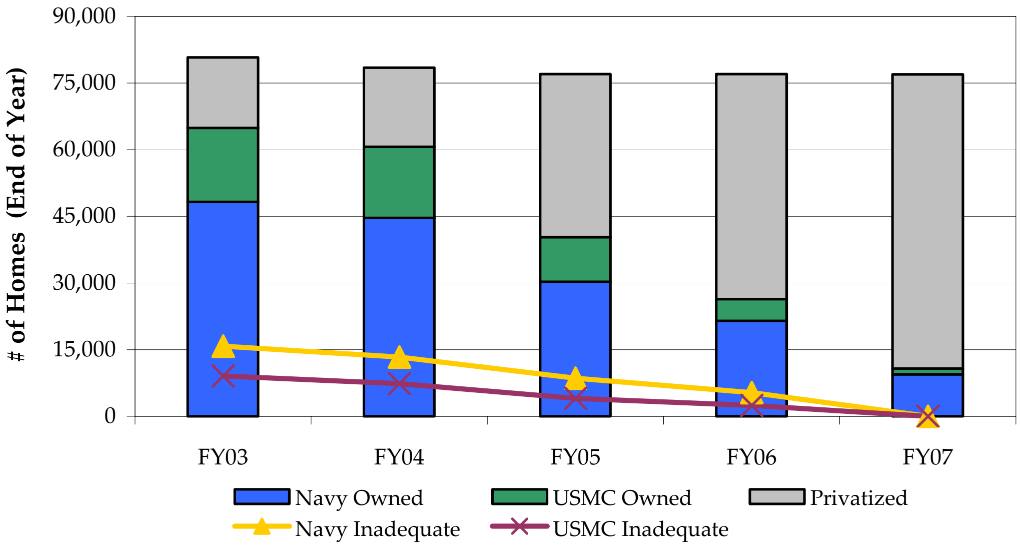
The FY 2007 budget request completes the investment to eliminate inadequate units by FY 2007 through a three-pronged strategy consisting of privatization of housing, improved housing allowances, and construction. Though funding decreases from FY 2006 levels, the Department achieves the goal of zero inadequate family housing units by FY 2007. Performance expectations for family housing are reflected in Chart 14.

For the Navy $98.2 million is budgeted for replacement projects planned for Guam, Marianas Islands addressing 176 units. Also, there is $19.9 million budgeted for privatization projects. Public Private Venture (PPV) awards are planned in the Southeast Region and San Diego, correcting 5,114 inadequate units. In addition to government financing, we estimate the private sector will contribute over $545 million in development capital for these PPV projects in FY 2007.

For the Marine Corps a $27.9 million replacement project is planned for Barstow, CA. Also, $154.6 million is budgeted for privatization projects. Privatization of 3,463 homes, eliminating 2,260 inadequate units and constructing 418 deficit-reduction units (including 271 units in support of the Marine Corps Special Operations Command (MARSOC) forces), is planned at Marine Corps Base Camp Lejeune and Marine Corps Air Station Cherry Point in North Carolina, Marine Corps Base Camp Pendleton, California, and Marine Corps Base Hawaii with an "end-state" of 3,541 units. In addition to government financing, we estimate the private sector will contribute over $360 million in development capital for these PPV projects in FY 2007.

| Family Housing Units | FY 2005 | FY 2006 | FY 2007 |
|---|---|---|---|
| New construction projects | - | 1 | 3 |
| Construction units | - | 126 | 250 |
| Privatization projects/units | 18,899 | 13,940 | 15,538 |

### *Chart 14 - Family Housing End of Year Inventories*




## *FACILITY SUSTAINMENT, RESTORATION, AND MODERNIZATION*

Appropriate investments of facility sustainment, recapitalization, and demolition funds are necessary to maintain an inventory of facilities in good working order and preclude premature degradation. The annual facility sustainment requirement, determined by the Department of Defense's facilities sustainment model, is calculated by applying both a unit sustainment cost (based upon industry facility standards) and a geographic area cost factor to the appropriate unit quantity (square feet, linear feet, etc.). The DoD goal is to have no more than five percent deferred sustainment through FY 2007, and then to fund sustainment at 100 percent of requirement beginning in FY 2008.

The Department utilizes an industry-based facility investment model to keep the facility inventory at an acceptable level of quantity and quality through life-cycle maintenance, repair, and disposal. Facility recapitalization (based upon industry facility standards) occurs through restoring or modernizing aged and damaged facilities. The annual funding requirement for facilities restoration and modernization (R&M) is based on the Department of Defense (DoD) goal of correcting facilities deficiencies to achieve a C-2 readiness rating in all facilities mission areas by FY 2010 and to achieve a recapitalization rate of 67 years by 2008. Readiness ratings (C-1, C-2, etc.) are described in the Installations' Readiness Report. While the Department's goal is to fully fund the requirement for replacement and R&M, competing priorities have led to the decision that a level of risk was acceptable in this area. Thus, the FY 2007 budget does not meet the DoD goal.

Table 17 summarizes the Department's Facility Sustainment, Restoration, and Modernization program.

## *Table 17*

### *Department of the Navy*

### *Facility Sustainment, Restoration, and Modernization*

*(In Millions of Dollars)*

| | FY 2005 | FY 2006 | FY 2007 |
|---|---|---|---|
| Navy | 1,194 | 1,281 | 1,195 |
| Marine Corps | 507 | 523 | 514 |
| **Total DON Facility Sustainment (All Appropriations)** | **$1,701** | **$1,804** | **$1,709** |
| Annual Unfunded Sustainment | | | |
| Navy | 127 | 118 | 63 |
| *% of Model Funded (Goal is 95% through 2007)* | *90%* | *92%* | *95%* |
| Marine Corps | 1 | 10 | 30 |
| *% of Model Funded (Goal is 95% through 2007)* | *95%* | *93%* | *90%* |
| **Total Unfunded Sustainment** | **$128** | **$128** | **$93** |
| Restoration and Modernization (R&M) Funding * | | | |
| Navy | 1,298 | 2,024 | 1,409 |
| Marine Corps | 323 | 244 | 227 |
| **Total DON R&M (All Appropriations)** | **$1,621** | **$2,268** | **$1,636** |
| Facilities Recapitalization Rate (Navy) | 78 | 55 | 82 |
| Facilities Recapitalization Rate (Marine Corps) | 73 | 102 | 112 |

* Totals Include BRAC and Hurricane Supplemental amounts
Note: Totals may not add due to rounding



| Also refer to Appendix A for more information: | Table |
|---|---|
| Military Construction, Navy and Naval Reserve | A-18 |
| Family Housing, Navy and Marine Corps | A-19 |
| Base Realignment and Closure Accounts | A-20 |

## *NAVY MARINE CORPS INTRANET (NMCI)*

All of our business transformation objectives require a reliable, modern, interoperable infrastructure to be successful. NMCI offers the opportunity for the Department of the Navy to leverage new technologies and industry innovation to better achieve our global naval mission. It will enable connection to the national

infrastructure, extend sharing and creation of knowledge and expertise worldwide, empower innovative work and training, and enhance the quality of service for every Marine, Sailor, and civilian. The connectivity NMCI provides will enable our people to increase their productivity and access all the resources that extend throughout the naval enterprise and our Nation. NMCI has also been a forcing function causing the Department to take inventory of its legacy application portfolio, which has subsequently been reduced by 90 percent. The NMCI contract was awarded in October 2000 for $6.9 billion and represents the largest service contract ever awarded by the Department of Defense. Congress authorized a two-year extension of the basic five-year contract in September 2002. We have fully accommodated the implementation of the NMCI within existing budget totals and reflected the distributed costs and benefits throughout the operational programs of the Department.

The budget supports total NMCI-specific costs for FY 2007 of approximately $1.7 billion and implementation of 344,000 seats, with a steady state to be reached during FY 2007. As of January 2006, the Navy had placed orders for 341,000 seats and fully implemented approximately 264,000 seats.

## *BUSINESS PROCESS TRANSFORMATION*

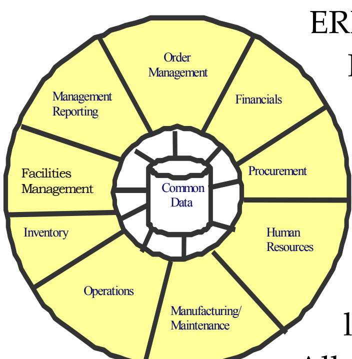
The Department is transforming our people, processes and systems, and are aggressively adopting proven best commercial practices to support our business transformation objectives. Our initiatives will complement each other, resulting in better-controlled, integrated and automated processes that deliver more accurate, reliable, and timely financial management information. This business intelligence will better

relate our resource investments to operational capabilities or outcomes, providing our warfighters and key decision makers with the information they need, when they need it. Our business transformation strategy involves four key elements:

- **Framework:** DoD Business Transformation
- **Cornerstone:** Navy Enterprise Resource Planning (ERP) Program
- **Transition Tool:** Functional Area Management (FAM)/Functional Data Manager (FDM)
- **Integrated Game Plan**: DON Financial Improvement Program (FIP)

**Framework: DoD Business Transformation.** DoD Business Transformation continues to evolve, providing the framework within which our future DON business processes will operate. The centerpiece of this initiative is the Business Enterprise architecture, or BEA. The BEA is a set of rules, standards, and principles guiding selection of future business systems and rationalization of our current systems within an Enterprise Transition Plan (ETP). The BEA emulates best private sector practices and consequently will encourage use of commercial off-the-shelf (COTS) software. Overall direction and approval of efforts are now under the purview of the Defense Business System Management Council (DBSMC), on which the Secretary of Navy sits. Initiatives and enterprise-wide systems will be managed by a Defense Business Systems Acquisition Executive (DBSAE), operating within the Defense Business Transformation Agency (BTA). Two primary financial products of the BTA will be the Standard Financial Information Structure (SFIS), which will be used to relate financial performance to budgets, and the Business Enterprise Information System (BEIS), which will support future financial reporting.

**Cornerstone: Navy Enterprise Resource Planning (ERP) Program.** Using the DoD Transformation framework, we will implement a BEA-compliant ERP as the cornerstone of our future business environment. Navy ERP is the key enabler of the Sea Enterprise vision to transform business processes and generate efficiencies to improve our combat capabilities. ERP is a COTS management system, providing a standard financial backbone and integrating business functional areas across an organization. ERP fosters elimination of redundant legacy systems and the streamlining of business processes. All essential data is entered once into the ERP system and remains accessible to all business process participants on a real-time basis; providing consistent, complete, relevant, timely, and accurate information for decision-making. The Navy ERP will integrate and improve processes for logistics, acquisition, and



financial operations by providing a template for implementation across the Navy. The first release of the Navy ERP is planned for FY 2007 at the Maritime Regional Maintenance Activities.

**Transition Tool: Functional Area Management (FAM)/Functional Data Manager (FDM).** The DON has embraced portfolio management as a tool to optimally transform our IT environment. The DON's Chief Information Officer, in coordination with the newly established Assistant Chief of Naval Operations for Information Technology, and the Director, Marine Corps Business Enterprise, is utilizing the FAM construct, along with the DON Application and Database Management System (DADMS) IT portfolio management tool, as the mechanism to select the optimal mix of IT investments in achieving required capabilities. Additionally, we plan to transition toward a more comprehensive and integrated business process and systems strategy. Using DADMS as the authoritative repository, the DON has made great progress in the identification of its systems/applications, networks, servers, and databases to better understand its IT environment. Of note, in deciding to establish a similar authoritative repository for the entire DoD, DADMS was selected as the vehicle and now supports the Defense Information Technology Portfolio Repository.

The FAMs are tasked with tallying the inventory of systems, rationalizing those systems using informed business case analysis, and proposing system consolidations to reduce redundancy. As part of this rationalization effort, the FAMs will use the BEA and the future Navy ERP deployment to develop the Department's legacy systems transition plan. This IT capital planning process directly supports development of the DON components of the DoD Enterprise Transition Plan (ETP) and active DON involvement in the DoD Investment Review Board (IRB) process that is governed by the DoD DBSMC.

Similarly, the DON's Functional Data Managers (FDM) has begun identifying the

DON's databases and data elements. This process will lead to the declaration of the authoritative data sources and the identification of the Communities of Interest (COI) and data sharing requirements. The FDM process will assist system rationalization, data conversion (to ERP and other end-state systems), and BEA compliance.

**Integrated Game Plan: DON Financial Improvement Program (FIP).** Even as we transform all business processes for long-term installation across the enterprise, we are clearly focused on continuing near-term improvements in the financial management area. The DON FIP will integrate elements of the initiatives described above, focusing on standardizing and documenting DON business processes and related controls. As business processes are transformed, the FIP will validate that financial statement line items derived from those processes are ready for audit, leveraging the best commercial practices embedded in the software and documenting all business processes - ensuring that acceptable controls are in place.

The DON, in coordination with the Office of the Under Secretary of Defense (Comptroller), has incorporated its FIP into the DoD Financial Improvement and Audit Readiness Plan (FIAR). The FIP Plan is the vehicle by which the DON will identify the steps necessary for measuring progress and ultimately asserting audit readiness. The DON Audit Committee provides executive oversight for the FIP. The Chief Financial Officers (CFO) Act of 1990, as amended by the Government Management Reform Act of 1994, requires executive agencies to produce auditable annual financial statements pursuant to accepted accounting standards. Achieving an unqualified ("clean") audit opinion is not the ultimate goal, however successful execution of the elements of DON Business Process Transformation will result in improved quality and timeliness of financial information, which is the goal. A favorable audit opinion should also be a related outcome.

In summary, the goal of DON's Business Process Transformation is to provide reliable, accurate, and timely business intelligence, supporting resource efficiency and sound business decisions. It will involve building a modern, integrated, automated environment within the DoD architecture, using Navy's ERP as the cornerstone. We will streamline our legacy systems inventory using portfolio management within the FAMs, controlling investments in information technology. Ultimately, a clean audit opinion will validate the transformation's success.

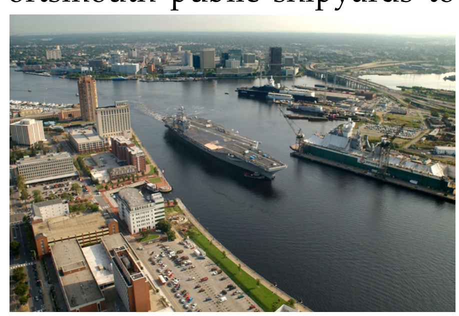
## *NAVY WORKING CAPITAL FUND (NWCF)*

In FY 2007, NWCF activities will continue to play a significant role in the Department's operations, and in the reconstitution of its equipment and supplies used in support of the Global War on Terrorism. The total cost of goods and services to be delivered by NWCF activity groups to their customers in FY 2007 is projected to exceed $25 billion for peacetime operations. NWCF activity groups include Supply Management, Depot Maintenance, Research & Development, Base Support, and Transportation.

In the area of supply management, the Department continues to focus on delivering combat capability through logistics support. Ensuring the right material is provided at the proper place, time and cost is vital to equipping and sustaining our warfighting units. To this end, the Department continues to pursue initiatives to control costs and improve readiness. Until we recapitalize and modernize our forces in volume, our older weapon systems combined with higher utilization rates, will continue to generate increased demand for spare parts. This is one reason the Department's request for material obligation authority remains high.

Spare parts are a single element within a complex and intricately balanced system to keep weapon systems safe and operating at optimal capacity. Towards this goal, the Department needs more robust information systems to collect, process, and share data from other integrated logistics support elements, such as training and maintenance. Hence, the Department continues to fund the Navy Enterprise Resource Planning initiative, which will provide better tools to assess program costs and implement cost reducing procedures. These efforts, along with reducing weapon systems average age, will stem spare parts demand growth and allow the Department to provide improved logistics support at lower cost.

The budget proposes to realign the Norfolk and Portsmouth public shipyards to mission funding beginning in FY 2007 to continue implementation of the Regional Maintenance Plan. A key element of this concept is the consolidation of separate ship maintenance (intermediate and depot maintenance facilities) within a region that results in the ability to best use the total maintenance resources available in the region, share resources between regions, and provide rapid surge capability to respond to Fleet priorities. Mission funding provides the best mechanism by which the Navy can match workforce skills with workload priorities and still meet fiduciary responsibilities. Additionally, the Puget Sound Naval Shipyard pilot prototype test of mission funding ends in FY 2007 as this shipyard permanently transitions to appropriated funding. The Department will provide the required reports on mission funding addressed in the FY 2006 National Defense Authorization Act**.**



For the Base Support area, FY 2007 is expected to include the addition of 15 new Public Works Center (PWC) detachments across the Continental United States.

These sites are currently independent public works departments under the control of different regional commands. The consolidation of these organizations as PWC detachments is expected to help reduce operating costs and standardize delivery of the various utility commodities and other products.

Transportation rates within the Military Sealift Command (MSC) reflect the full implementation of peacetime force protection costs and cost containment measures to ensure more efficient operations. Activation changes include delivery of three additional T-AKE and two ARS vessels in FY 2007.

Lastly, the Department projects the NWCF cash balance to trend below the seven-day cash level minimum prescribed in the DoD Financial Management Regulation during most of FY 2006 but end the year close to the seven-day level. The lower NWCF cash levels are not due to prior year operating losses, but mostly from the cumulative effect of directed transfers over several years to support the Global War on Terrorism and other operations. As part of the DON Financial Management Strategic Plan business transformation effort, a team is reviewing NWCF cash "as is" forecasting practices in an effort to standardize business processes and tailor cash balances for each NWCF business area.

## *Table 18*

### *Department of the Navy*
### *Summary of NWCF Costs*

*(In Millions of Dollars)*

| **OPERATIONS** | **FY 2005** | **FY 2006** | **FY 2007** |
|---|---|---|---|
| Supply (Obligations) | 5,236 | 7,826 | 8,116 |
| Depot Maintenance - Aircraft | 1,962 | 2,035 | 1,977 |
| Depot Maintenance - Ships | 1,686 | 1,754 | 250 |
| Depot Maintenance - Marine Corps | 463 | 502 | 320 |
| Transportation | 2,003 | 2,177 | 2,117 |
| Research and Development | 10,035 | 10,132 | 10,121 |
| Base Support | 1,694 | 2,230 | 2,332 |
| **TOTAL** | **$23,079** | **$26,656** | **$25,233** |
| **CAPITAL INVESTMENT** | | | |
| Supply | 12 | 15 | 14 |
| Depot Maintenance - Aircraft | 38 | 42 | 42 |
| Depot Maintenance - Ships | 26 | 25 | 0 |
| Depot Maintenance - Marine Corps | 4 | 5 | 5 |
| Transportation | 15 | 28 | 35 |
| Research and Development | 106 | 114 | 113 |
| Base Support | 18 | 19 | 19 |
| **TOTAL** | **$219** | **$248** | **$228** |

# *Managing Risk - Performance Metrics*

The FY 2007 budget consolidates Strategic Planning Guidance objectives and performance management goals of the President's Management Agenda with the 2005 Quadrennial Defense Review goals under a balanced scorecard for risk management and designates metrics the Department of Defense (DoD) will use to track associated performance results. The cascading performance metrics/outcomes for each DoD risk area are shown below:

**FORCE MANAGEMENT RISK**

| | |
|---|---|
| Maintain a Quality Force | Ensure Sustainable Military Tempo and Workforce Satisfaction |
| Maintain Reasonable Force Costs | Shape the Force of the Future |

**OPERATIONAL RISK**

| | |
|---|---|
| Ensuring Force Availability | Maintaining Force Readiness |
| Shaping Force Posture | Linking Contingency Planning to Capabilities and Resources |

**INSTITUTIONAL RISK**

| | |
|---|---|
| Institutionalizing Capabilities-Based Planning, Improving Financial Management, and Driving Acquisition Excellence | Improve the Readiness and Quality of Key Facilities |
| Manage Overhead/ Indirect Cost | Realign Support to the Warfighter |

**FUTURE CHALLENGES RISK**

| | |
|---|---|
| Drive Innovative Joint Operations | Define Human Capital Skills and Competencies |
| Develop More Effective Organizations | Define and Develop Transformational Capabilities |

Performance information developed from these metrics will be used to describe the Department's performance goals and results for all related performance reports, including the President's Management Agenda and the Program Assessment Review Tool. The budget reflects a balance among the four risk areas.

<u>Force Management Risk</u> **- providing a trained and ready force is the leading output or business of the Department of Defense; unlike many other investments the Department makes, investments in our people -- military and civilian -- appreciate in value over time.**

The Department is reducing risk by continuing ongoing efforts to improve force management and reduce stress on the force. One of our most valued resources is the people that support the Navy and Marine Corps team. The Navy and Marine Corps continue to maintain a robust overseas presence and rotational posture in support of the defense strategy. Sailors and Marines are based forward and deploy as part of their inherent responsibilities. They join and re-enlist with the understanding that this is part and parcel of their commitment to serve. The Navy continues to budget for fewer military strength in FY 2007 and is confident that this budget supports proper sizing of force and all assigned missions can be accomplished with this level as a result of force structure changes, efficiencies gained through technology, altering the workforce mix, and new manning practices. QDR 2005 reiterated the commitment to developing the best mix of people who are equipped with the right skill-sets across the total force of active and reserve military and civilian personnel. The Department continues to explore new manning practices and workforce balance options, including military to civilian conversions. We also continue to focus on recruiting and retaining the right people, and we are encouraged by the increased quality of sailors being sent to the fleet. We are moving toward a capability-based workforce focused on the competency necessary to support our expanding role in the Global War on Terror, Homeland Defense, and stability operations. We will link and leverage Sea Warrior and National Security Personnel System processes to achieve a personnel architecture that rewards performance and can quickly respond to demands.

The National Security Personnel System (NSPS) authorized by Congress provides DoD leaders the right tools to manage the civilian workforce today and for the future. The NSPS reforms will provide supervisors and managers greater flexibility in managing our civil service employees, facilitate competition for high quality talent, offer compensation competitive with the private sector, and reward outstanding service. The DON will participate in the first group of conversions to NSPS, Spiral 1.1, and we will work closely within DoD to ensure we meet this aggressive timeline.

<u>Operational Risk</u> **- ensuring U.S. military and civilian personnel are ready at all times to accomplish the range of missions assigned in the defense strategy is the leading defense customer priority.**

The Department continues to reduce risk by emphasizing capabilities that better address irregular, catastrophic and disruptive challenges. This includes winning the Global War on Terrorism, enhancing capabilities to conduct stability operations, and improving homeland defense. The power of our combat capability has been strong in the areas of forward presence forces and our ability to surge. In concert with the QDR 2005, the Department continues to sustain a superb level of readiness to deliver exactly the right combat capabilities – access, speed, agility, adaptability, persistence, awareness, and lethality – for exactly the right cost. Key readiness accounts are funded to ensure that our forces are prepared to meet any tasking. The Fleet Response Plan enables the Fleet to be forward deployed and also capable of surging substantial forces. Deployed air/ship/Marine Expeditionary Force operations are budgeted to maintain highly ready forces. Non-deployed OPTEMPO levels primarily provide training of fleet units but maintain a combat ready and rapidly deployable force. This budget request incorporates force structure changes that clearly reflect the wider range of operations and contingencies called for in the defense strategy. This budget reflects decommissioning of some older ships and aircraft with high operations and support costs relative to the combat capability they provide. Funding continues for the 4th Marine Expeditionary Brigade (AT) to detect, deter, defend, and conduct initial incident response to combat the threat of terrorism and continues the fielding of improved combat equipment.

**<u>Future Challenges Risk</u> - anticipating future threats and adjusting capabilities to maintain a military advantage against them is the leading learning and growth priority for the Department of Defense.**

The Department is balancing risk by moving through a generational shift in our weapons acquisition programs. We continue to focus on shifting to next generation surface combatants and sea basing capabilities. The total number of new ships procured over the FYDP is 51, averaging 10.2 ships per year including the DD(X), the Littoral Combat Ship (LCS), VIRGINIA Class SSN, CVN-21, CG(X), LPD-17, and LHA(R). The budget also reflects a growing investment in naval aviation, replacing over worked and out dated aircraft with more capable and cost effective platforms.
The budget continues to maximize the return on procurement dollars, primarily through the use of multi-year procurement for the F/A-18E/F and EA-18G, the E-2C, the MH-60S/R, and the KC-130J programs. Funding continues for development of FORCEnet, an architecture that will integrate sensors, networks, decision aids, and weapons into an adaptive human control maritime system in order to achieve dominance across all warfare systems. The Department is maintaining a steady investment while seeking to maximize the yield, relevance, and degree of innovation in the overall Science and Technology program.

**<u>Institutional Risk</u> - ensuring that DoD financial, acquisition, and resource management processes are streamlined and efficient is what drives the underlying financial principles of doing defense business; just as the Department transforms its operational capabilities, it must also reform its underlying support structures to be more efficient and exploit creative technology solutions.**

The Department is reducing risk by emphasizing implementation of capabilities-based planning. This budget request represents the Department's commitment to improve the acquisition processes, make facility structure more efficient, and better manage resources for improved business. In an effort to improve shore installation effectiveness, the Navy has identified best business practices, set Navy-wide standards of service, developed metrics, and linked standards and metrics to required readiness levels. We continue to transform business processes and develop integrated enterprise solutions.

The Navy Marine Corps Intranet and Enterprise Resource Planning are examples of innovative changes that will significantly improve connectivity, financial and business reporting, and management performance. Through the Functional Area Management/Functional Data Management construct, the Department is preparing transition plans and data conversions for future ERP deployment. As a Department, we continue to aggressively challenge our Systems Commands and other shore activities to improve processes, find efficiencies, and eliminate legacy information systems.

The information below provides page references to the performance information contained in this document and in detailed budget justification materials supporting the FY 2007 budget submission.

| Risk Category | Strategic Goal | Performance Measure | Page # |
|---|---|---|---|
| Force Management Risk | Maintain a Quality Force | Number of Recruiters | 3-3, 3-6 |
| | | Number of Recruits | 3-3, 3-6 |
| | | Size of Delayed Entry Program | 3-3, 3-6 |
| | | Enlisted Attrition Rates | 3-4, 3-7 |
| | Ensure Sustainable Military Tempo | Ships Deployed | 2-8 |
| | | MEUs deployed | 2-8 |
| | | Ships Underway | 2-8 |
| | | MEUs predeployment | 2-8 |
| | | Active/Reserve Navy/Marine Corps Strength | 3-4, 3-5, 3-6, 3-7, 3-8 |
| | | Number of Reserves Activated | 2-8 |
| | | Number of Deployed Sailors | 2-8 |
| | | Number of Deployed Marines | 2-8 |

| | | | |
|---|---|---|---|
| | Maintain Workforce Satisfaction | PERSTEMPO | 3-2 |
| | | Enlisted Reenlistment Rates | 3-4, 3-7 |
| | | Career Pay Enhancements | 3-2 |
| | Maintain Reasonable Force Costs | Competitive sourcing study positions | 3-10 |
| | | Civilian manpower levels | 3-9, 3-11 |
| | | Costs for Accession/Basic Skills/Advanced Training | 3-2 |
| | | Total Paid Compensation | 3-1 |
| | Shape the Force of the Future | Implement optimized, supportable, future force structure and workforce | 3-1 |
| **Institutional Risk** | Streamline Decision Processes, Drive Financial Management and Acquisition Excellence | Implement Enterprise Resource Planning | 4-9 |
| | | DON Financial Improvement Plan (DON FIP) | 4-10 |
| | | Number of Navy Marine Corps Intranet Seats | 4-11 |
| | Manage Overhead and Indirect Costs | Reduction in base structure to eliminate unnecessary infrastructure | 4-1, 4-2 |
| | Improve the Readiness and Quality of Key Facilities | 67 Year FSRM Recapitalization Rate | 4-7 |
| | | Reliability & Maintainability Shortfall | 4-7 |
| | | Inadequate family housing units | 4-6 |
| | | Number of Privatization Projects | 4-6 |
| | | Readiness status of facilities | 4-6, 4-7 |
| | Realign Support to the Warfighter (including Defense Agencies) | Tooth-to-Tail Ratio | 1-5 |
| **Operational Risk** | Do We Have the Forces Available? | Battle Force Ships | 2-9 |
| | | Active Air Wings | 2-16 |
| | | Active Primary Authorized Aircraft (PAA) | 2-16 |
| | | Number of Marine Expeditionary Forces | 2-22 |
| | | Number of Marine Expeditionary Brigades | 2-22 |
| | | Number of Marine Battalions | 2-22 |
| | Are They Currently Ready? | Navy/Marine Corps Personnel Readiness Ratings | 3-2, 3-6 |
| | | Active Flying Hours T-Rating | 2-17 |
| | | Active Steaming Days Per Quarter | 2-9 |
| | What Are Our Critical Force, Sustainment, and Infrastructure Needs? | Aircraft Mission Capable Rates | 2-19 |
| | | Airframe Availability/PAA | 2-20 |
| | | Aircraft Engine Bare Firewalls | 2-20 |
| | | Aircraft Engine Spares Ready-to-Issue | 2-20 |
| | | Ship Maintenance % Rqmnt Funded | 2-14 |
| | | Surge Sealift Ships and Capacity | 2-12 |
| | | Prepositioning Ships and Capacity | 2-12 |
| | | Reserve Steaming Days Per Quarter | 2-11 |
| | | Reserve Battle Force Ships | 2-11 |
| | | Reserve Air Wings | 2-16 |
| | | Reserve Flying Hours T-Rating | 2-18 |
| | | Reserve Primary Authorized Aircraft | 2-16 |

| | | | |
|---|---|---|---|
| | Are We Successfully Executing our Strategy? | Deferred Ship Maintenance | 2-14 |
| | | Deferred FSRM | 4-7 |
| | | Ships Deployed | 2-8 |
| | | MEUs Deployed | 2-8 |
| | | Ships Underway | 2-8 |
| | | MEUs Predeployment | 2-8 |
| | | Active/Reserve Navy/Marine Corps Strength | 3-4, 3-5, 3-6, 3-7, 3-8 |
| **Future Challenges Risk** | Drive Innovative Joint Operations | Joint/International Exercises | 2-8 |
| | Develop More Effective Organizations | Capitalizing on innovation, experimentation, and technology | 5-1 |
| | Define Skills and Competencies for the Future | Implementing Sea Warrior Initiative | 3-3 |
| | Define and Develop Transformational Capabilities | Implement enhanced naval capabilities to project offense, project defense, and project sovereignty around the globe | 1-4 |
| | | Aviation Procurement Plan | 5-7 |
| | | Ship Construction Plan | 5-3 |
| | | Aviation/Ship Weapons Quantities | 5-4, 5-8 |
| | | Marine Corps Ground Equipment Quantities | 5-12 |
| | | Implement Network Centric Warfare | 5-10, 5-11 |
| | | Major Platform R&D | 5-16 |
| | | Maintain Balanced and Focused Science and Technology | 5-16 |
| | | Funding for R&D support | 5-16 |

## *Other Performance Metrics*

Throughout the overview book metrics have been addressed which are included in our performance plan and provide a measure of our overall effectiveness. Within the Department of the Navy, goals and objectives have been implemented through the Planning, Programming, Budgeting, and Execution System (PPBES) process. PPBES accommodates the integration of operational goals, risk management, and performance across the broad spectrum of Department of the Navy missions. These metrics are also contained in budget justification materials supporting the FY 2007 budget request as directed by Congress.

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